Your business
is our business.

***VIA ECFS***

July 19, 2018

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Attention: Chief, Wireline Competition Bureau

**Re: Allband Communications Cooperative Petition for Waiver of Certain High-Cost Universal Service Rules**
**Connect America Fund, WC Docket No. 10-90**

Dear Ms. Dortch:

Pursuant to the conditions set forth in the Wireline Competition Bureau's 2018 Allband Waiver Order, [1] JSI hereby submits consolidated 2017 audited financial statements for Allband Communications Cooperative and Allband Multimedia LLC with notes.

Inquiries may be directed to the undersigned consultant for Allband.

Sincerely,

John Kuykendall
Vice President
jkuykendall@jsitel.com

Attachment

[1] *In the Matter of Connect America Fund, Allband Communications Cooperative Petition for Waiver of Certain High-Cost Universal Service Rules*, WC Docket No. 10-90, DA 18-177 rel. Feb. 22, 2018 ("2018 Allband Waiver Order"), Paras. 21 & 32.

# ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES
(A Michigan Mutual Company)

CURRAN, MICHIGAN

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

CONTENTS

**LALLY GROUP, PC**
Certified Public Accountants
***"Trusted Service for a Confident Tomorrow"***

**Jackson Office**
110 1st Street
JACKSON, MICHIGAN 49201
(517) 787-0064
Website: www.lallycpa.com
E-Mail: info@lallycpa.com

**Lansing Office**
7335 Westshire Drive
LANSING, MICHIGAN 48917
(517) 627-4008
(517) 321-4333

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Allband Communications Cooperative and Subsidiaries
7251 Cemetery Road
Curran, Michigan 48728

We have audited the accompanying financial statements of ALLBAND COMMUNICATIONS COOPERATIVE (the Cooperative), its wholly-owned subsidiary ALLBAND MULTIMEDIA, LLC (A Michigan Mutual Company), and its wholly-controlled subsidiary ALLBAND CENTER FOR EDUCATION, WILDLIFE & RESEARCH (A Michigan Nonprofit Organization), which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allband Communications Cooperative and its wholly-owned and wholly-controlled subsidiaries as of December 31, 2017 and 2016, and the results of its consolidated operations, changes in members' equity and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter Regarding Going Concern*

The accompanying financial statements have been prepared assuming that the Cooperative will continue as a going concern. As discussed in Note 12 to the financial statements, issues concerning waivers with the FCC have had a significant impact on operations. These issues have significantly decreased the cooperative's cash flow and raises substantial doubt about its ability to continue as a going concern. Management's plans regarding this matter are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information on pages 18 through 27 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Board of Directors
Allband Communications Cooperative

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated July 12, 2018, on our consideration of Allband Communications Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Allband Communications Cooperative's internal control over financial reporting and compliance.

Respectfully submitted,

*Lally Group, PC*
*Jackson, Michigan*

July 12, 2018

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES
(A Michigan Mutual Company)
CURRAN, MICHIGAN

# CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2017 AND 2016

## ASSETS

| | 2017 | 2016 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 181,612 | $ 81,829 |
| Accounts receivable - telecommunications | 288,516 | 136,005 |
| Materials and supplies | 505,636 | 493,765 |
| Loan origination fees - current | 2,750 | 2,750 |
| Prepaid taxes | 0 | 0 |
| Prepaid income taxes | 11,248 | 11,248 |
| Other prepaid expenses | 19,072 | 23,190 |
| Note receivable - current portion | 63 | 908 |
| Total current assets | 1,008,897 | 749,695 |
| NONCURRENT ASSETS: | | |
| Deferred loan costs | 19,937 | 22,687 |
| Note receivable - noncurrent portion | 0 | 839 |
| Total noncurrent assets | 19,937 | 23,526 |
| PROPERTY, PLANT, AND EQUIPMENT: | | |
| Telecommunications plant under construction | 50,280 | 50,280 |
| Telecommunications plant in service | 7,256,860 | 7,228,777 |
| Leased property, plant, and equipment | 1,407,593 | 1,343,478 |
| | 8,714,733 | 8,622,535 |
| Less: Accumulated depreciation | 3,725,947 | 3,279,154 |
| Net book value | 4,988,786 | 5,343,381 |
| Total assets | $ 6,017,620 | $ 6,116,602 |

(The accompanying notes are an integral part of these financial statements)

## LIABILITIES AND MEMBERS' EQUITY

| | 2017 | 2016 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current portion - RUS mortgage notes | $ 238,253 | $ 66,808 |
| Current portion - other notes payable | 30,092 | 9,988 |
| Current portion - capital leases | 10,992 | 0 |
| Accounts payable | 240,999 | 123,309 |
| Accrued interest | 93,558 | 6,379 |
| Accrued taxes and expenses | 8,861 | 20,003 |
| Security deposits | 9,639 | 11,908 |
| Total current liabilities | 632,394 | 238,395 |
| OTHER LONG-TERM LIABILITIES: | | |
| Deferred grant revenue | 349,394 | 365,847 |
| Capital lease | 1,329,301 | 1,276,176 |
| Total other long-term liabilities | 1,678,695 | 1,642,023 |
| LONG-TERM DEBT - less current portion: | | |
| RUS mortgage notes | 4,680,636 | 4,919,458 |
| Other notes payable | 185,399 | 61,262 |
| Total long-term debt | 4,866,035 | 4,980,720 |
| Total liabilities | 7,177,124 | 6,861,138 |
| MEMBERS' EQUITY: | | |
| Memberships issued | 3,520 | 3,280 |
| Non-Patronage capital (deficit) | (230,410) | (58,934) |
| Patronage capital (deficit) | (932,614) | (688,882) |
| Total members' equity (deficit) | (1,159,504) | (744,536) |
| Total liabilities and members' equity | $ 6,017,620 | $ 6,116,602 |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| OPERATING REVENUES: | | |
| Wireline | $ 687,581 | $ 948,869 |
| Long distance | 14,376 | 10,746 |
| Internet revenue | 634,095 | 617,591 |
| Miscellaneous | 4,637 | 4,735 |
| Total operating revenues | 1,340,689 | 1,581,941 |
| OPERATING EXPENSES: | | |
| Plant specific operations | 199,407 | 238,382 |
| Plant nonspecific operations | 76,138 | 88,836 |
| Depreciation and amortization | 448,565 | 469,106 |
| Customer operations | 181,941 | 188,243 |
| Corporate operations | 453,385 | 431,148 |
| Total operating expenses | 1,359,436 | 1,415,715 |
| GROSS OPERATING INCOME (LOSS) | (18,747) | 166,226 |
| OPERATING TAXES: | | |
| Other operating taxes | 66,610 | 74,075 |
| OPERATING INCOME (LOSS) | (85,357) | 92,151 |
| NONOPERATING INCOME (DEDUCTIONS): | | |
| Interest income | 2 | 129 |
| Interest expense - RUS | (250,048) | (252,482) |
| Interest expense - other | (93,138) | (85,263) |
| Other income (expense) | (4,864) | (43,305) |
| Other non-regulated income (expense) | 18,197 | 749 |
| Total nonoperating income (deductions) | (329,851) | (380,172) |
| NET INCOME (LOSS) | $ (415,208) | $ (288,021) |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | MEMBERSHIP | PATRONAGE CAPITAL (DEFICIT) | NON-PATRONAGE CAPITAL (DEFICIT) | TOTAL |
|---|---|---|---|---|
| BALANCE - JANUARY 1, 2016 | $ 3,140 | $ (552,710) | $ 92,914 | $ (456,656) |
| Memberships - net | 140 | | | 140 |
| Allband Communications Cooperative | | (136,273) | 878 | (135,395) |
| Allband Multimedia, LLC | | 101 | (148,959) | (148,858) |
| ACEWR | | | (3,767) | (3,767) |
| BALANCE - DECEMBER 31, 2016 | 3,280 | (688,882) | (58,934) | (744,536) |
| Memberships - net | 240 | | | 240 |
| Allband Communications Cooperative | | (248,982) | 18,199 | (230,783) |
| Allband Multimedia, LLC | | 5,250 | (154,206) | (148,956) |
| ACEWR | | | (35,469) | (35,469) |
| BALANCE - DECEMBER 31, 2017 | $ 3,520 | $ (932,614) | $ (230,410) | $ (1,159,504) |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net income (loss) | $ (415,208) | $ (288,021) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 449,541 | 470,601 |
| (Gain) Loss from disposal of capital lease | 0 | 37,081 |
| Changes in operating assets and liabilities: | | |
| (Increase) Decrease in: | | |
| Accounts receivable | (152,511) | 107,373 |
| Materials and supplies | (11,871) | 15,381 |
| Prepaid taxes | 0 | 43,752 |
| Prepaid income taxes | 0 | 31,695 |
| Other prepaid expenses | 4,118 | (2,270) |
| Increase (Decrease) in: | | |
| Accounts payable | 117,690 | 102,263 |
| Accrued interest | 87,179 | 6,379 |
| Accrued taxes and expenses | (11,142) | (10,772) |
| Security deposits | (2,269) | (4,100) |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | 65,527 | 509,362 |
| INVESTING ACTIVITIES: | | |
| Purchase of property, plant, and equipment | (44,532) | (151,333) |
| Proceeds from sale of property, plant, and equipment | 0 | 100 |
| Issuance of notes receivable | 0 | (1,905) |
| Payments received on notes receivable | 1,684 | 158 |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | (42,848) | (152,980) |
| FINANCING ACTIVITIES: | | |
| Increase in memberships | 240 | 140 |
| Proceeds from other long-term debt borrowings | 150,000 | 71,250 |
| Payments on capital leases | 0 | (108,502) |
| Principal payments on long-term debt | (73,136) | (398,132) |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | 77,104 | (435,244) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 99,783 | (78,862) |
| CASH AND CASH EQUIVALENTS - BEGINNING | 81,829 | 160,691 |
| CASH AND CASH EQUIVALENTS - ENDING | $ 181,612 | $ 81,829 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid | $ 256,007 | $ 331,364 |
| Income taxes paid | $ 0 | $ (45,955) |
| Leased property, plant and equipment | $ 64,115 | $ 1,343,478 |
| Leased equipment payable | $ 64,115 | $ (1,343,478) |

(The accompanying notes are an integral part of these financial statements)

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Allband Communications Cooperative and subsidiaries (herein referred to as “the Cooperative”) provides telecommunication services to member subscribers in the northeast portion of the lower peninsula of Michigan.

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Public Service Commission of Michigan, which conform to accounting principles generally accepted in the United States of America (US GAAP).

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, Allband Multimedia, LLC (Allband Multimedia), and its wholly-controlled subsidiary Allband Center for Education, Wildlife & Research (ACEWR).

Allband Multimedia was formed to provide VOIP and internet service to areas outside of the Cooperative’s regulated telephone area.

ACEWR is a non-profit organization, whose purpose is to benefit people and their environment, through such means as expanding access to technology in underdeveloped areas, enhancing economic development and health care, and improving wildlife and habitat management in rural areas. ACEWR shares a board of directors and management with the Cooperative.

All material intercompany accounts and transactions are eliminated in consolidation.

<u>Concentrations of Credit Risk</u> -

The Cooperative grants credit to member subscribers, substantially all of whom are located in the Curran, Michigan area. The Cooperative will also grant credit to connecting toll companies located throughout the United States.

The Cooperative received 49% of its 2017 revenues from access revenues and assistance provided by the Federal Universal Services Fund. The FCC adopted an order reforming the Universal Service Fund and Intercarrier Compensation. The details of that order have been released over time and some pieces are still open to further rulemaking or review. However, we believe that there is concern our revenues from these sources may be subject to substantial reductions during the ensuing years after 2020. The Cooperative filed in July 2017 a further waiver petition seeking relief from the FCC's presumptive cap on per-line Universal Services Fund reimbursements, the results of which were not yet known or accounted for in these 2016 and 2017 audit years. The FCC's Wireline Competition Bureau subsequently issued in February 2018 a waiver of the per-line cap to recognize a per-line reimbursement up to $457 per-line for a 3-year period extending into 2021.

<u>Use of Estimates</u> -

The process of preparing financial statements in conformity with US GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents -

The Cooperative classifies all investments that mature in three months or less as cash equivalents.

Accounts Receivable -

Accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis, thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectability based on past credit history with customers. An allowance for bad debts of $22,250 and $24,371 was recorded by management as of December 31, 2017 and 2016, respectively.

Materials and Supplies -

All materials and supplies are valued at the lower of cost or current market value on the specific identification basis. Materials and supplies consist primarily of fiber cable purchased for future plant construction.

Telephone Plant and Depreciation -

Telephone plant in service and under construction is capitalized at original cost. The Cooperative provided for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.

At the time the plant is retired, the retirements credited to telephone plant together with removal costs less salvage are charged to the depreciation reserve unless the retirement is of an extraordinary or abnormal nature.

No gains or losses are recognized in connection with routine retirements of depreciable property. Repairs and renewals of minor items of property are included in plant specific operations expense.

When property, plant and equipment is acquired through a capital lease agreement, it is included in a property, plant and equipment asset account with corresponding depreciation expense and accumulated depreciation. Depreciation is recognized under the same method as the other assets described above, with no salvage value. Any gains or losses recognized in connection with the retirement of leased property, plant and equipment are recorded in other non-regulated income (expense).

Deferred Loan Costs -

Deferred loan costs are amortized on a straight-line basis over the term of the loan. Amortization of deferred loan costs is expected to be $2,750 for each of the next five years.

Revenue Recognition -

Toll service revenues, access revenues, and local service revenues are recognized when earned, regardless of the period in which they are billed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenue Recognition (Continued) -
The Cooperative receives interstate settlements from the National Exchange Carrier Association (NECA) for providing access service. Interstate access settlements are based on average nationwide settlements. Intrastate rates are set based upon interstate rates.

Maintenance -

Accounting for maintenance and repairs was in conformity with the Uniform System of Accounts prescribed by the Michigan Public Service Commission.

NOTE 2 - WIRELINE REVENUE:

Wireline revenue consisted of the following at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Customer | $ 25,121 | $ 24,815 |
| Intercarrier: | | |
| Interstate | 251,162 | 376,746 |
| Intrastate | 25,073 | 32,257 |
| Universal Service Fund - Federal | 380,164 | 508,990 |
| Universal Service Fund - State | 6,061 | 6,061 |
| Total wireline revenue | $ 687,581 | $948,869 |

NOTE 3 - INVESTMENT IN TELEPHONE PLANT AND CABLE ASSETS:

Telephone plant in service was stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 9,887 | $ 9,887 |
| Buildings | 280,222 | 280,222 |
| General purpose computers | 11,933 | 11,933 |
| Office equipment | 21,473 | 21,473 |
| Network equipment | 898,667 | 898,667 |
| Cable | 5,863,462 | 5,835,379 |
| Vehicles | 76,188 | 76,188 |
| Other work equipment | 95,028 | 95,028 |
| Telephone plant in service | $7,256,860 | $7,228,777 |

Leased Property, Plant, and Equipment -

On January 1, 2016, the Cooperative re-measured its lease agreements and determined the buildings and equipment leased from Northeast Michigan Drilling and Development, Inc. (NEMDD) had met the requirements to be classified as capital leases.

NOTE 3 - INVESTMENT IN TELEPHONE PLANT AND CABLE ASSETS (Continued):

Leased Property, Plant, and Equipment (Continued) -

Beginning in January 2017, the Cooperative has deferred payment on all lease agreements with NEMDD. These deferrals have currently been extended through March 2018, with the term of the leases being extended by 60 months. The lease agreements have been re-measured as of December 31, 2016, to include the extensions through March 31, 2018, the date the financial statements were available for release. The Cooperative valued the leased assets using the present value of future lease payments, with an imputed interest rate of 6%.

As of December 31, 2017, the value of the leased property, plant and equipment was:

| | 2017 |
|---|---|
| Vehicles | $ 164,571 |
| Other work equipment | 191,526 |
| Buildings | 1,003,272 |
| Other equipment | 48,224 |
| Leased property, plant, and equipment | $1,407,593 |

Depreciation

The Cooperative provided for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life. The projected composite depreciation rate is approximately 5.3% during the first six years. Estimated useful life for the major asset classes are as follows:

| | |
|---|---|
| Buildings | 20 Years |
| General purpose computers | 10 Years |
| Network equipment | 10 Years |
| Cable | 22 Years |
| Other work equipment | 15 Years |

NOTE 4 - LONG-TERM DEBT:

U.S. Rural Utilities Service -

The total amount of long-term debt through notes payable from the U.S. Rural Utilities Service (RUS) at December 31, 2017 and 2016, consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Total principal outstanding | $4,918,889 | $4,986,266 |
| Less: Current maturities | 238,253 | 66,808 |
| Total long-term debt | $4,680,636 | $4,919,458 |

The Cooperative has multiple notes payable to the RUS. The notes are collateralized by substantially all of the telephone plant.

NOTE 4 - LONG-TERM DEBT (Continued):

U.S. Rural Utilities Service (Continued) -

The mortgage to the United States of America, underlying the RUS notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock, or investment in affiliated companies except as might be specifically authorized in writing in advance by the RUS note holders.

Under the provisions of the loan contract, advances of loan funds shall be deposited in a special construction account and held in trust for the government until disbursed. The loan contract restricts disbursements to such expenditures as RUS may authorize. All payments from the trust accounts are subject to RUS approval.

At December 31, 2017 and 2016, the Cooperative did not meet the minimum times interest earned ratio (TIER) as defined in Section 5.12 of the RUS loan agreement.

The current waiver expires after June 2018, with principal payments required beginning in July 2018.

Scheduled maturities of existing RUS long-term debt for each of the next five years are as follows:

| | |
|---|---|
| 2018 | $238,253 |
| 2019 | $424,918 |
| 2020 | $446,638 |
| 2021 | $469,510 |
| 2022 | $493,531 |

Northeast Michigan Drilling and Development, Inc. (NEMDD) -

In December 2016, the Cooperative purchased a vehicle and other work equipment from NEMDD in the amount of $71,250. The Cooperative financed this purchase with a 60-month promissory note. The interest rate on the loan is 11% per annum, with payment in full due on or before January 1, 2022.

Through July 12, 2018, the date the financial statements were available for release, the Cooperative has been permitted to make interest only payments on the loan, but payments on the note payable balance are expected to commence in 2018.

Scheduled maturities of the note from NEMDD for each of the next five years are as follows:

| | |
|---|---|
| 2018 | $ 9,988 |
| 2019 | 14,606 |
| 2020 | 16,283 |
| 2021 | 18,180 |
| 2022 | 6,435 |

NOTE 4 - LONG-TERM DEBT (Continued):

John Reigle -

The total amount of long-term debt through a note payable to board president John Reigle as December 31, 2017 and 2016, consisted of the following:

| | |
|---|---|
| Total principle amount | $150,000 |
| Less: current maturities | 20,104 |
| Total long-term debt | $129,896 |

The loan from John Reigle has an interest rate of 11% per annum and is unsecured.

Scheduled maturities of long-term debt for each of the next five years are as follows:

| | |
|---|---|
| 2018 | $ 20,104 |
| 2019 | 29,587 |
| 2020 | 32,980 |
| 2021 | 36,827 |
| 2022 | 30,502 |

In December 2016, the Cooperative purchased a vehicle and other work equipment from NEMDD in the amount of $71,250. The Cooperative financed this purchase with a 60-month promissory note. The interest rate on the loan is 11% per annum, with payment in full due on or before January 1, 2022.

NOTE 5 - CAPITAL LEASES:

As described in Note 3 above, the Cooperative re-measured its lease agreements with NEMDD as of January 1, 2016, to determine that the lease agreements have met the requirements to be classified as capital leases. Subsequently, due to the deferral of payments through March 2018 and the extension of all leases by 60 months, the lease agreements were subsequently re-measured at January 1, 2017, to reflect the extension. The imputed interest rate on all capital leases is 6%.

Future minimum lease payments due under this lease are as follows:

| | |
|---|---|
| 2018 | $ 111,812 |
| 2019 | 150,818 |
| 2020 | 153,067 |
| 2021 | 155,380 |
| 2022 | 157,757 |
| 2023 and after | 1,523,298 |
| | 2,252,132 |
| Amount representing interest | (911,838) |
| Present value of minimum lease payments | $ 1,340,294 |

Interest expense on the capital lease obligations was $80,738 and $86,523 for the year ended December 31, 2017 and 2016.

NOTE 6 - FEDERAL INCOME TAX STATUS:

This Cooperative operates as a tax-exempt corporation as defined by the United States Treasury, Internal Revenue Code Section 501(c)(12). One of these requirements is that the Cooperative must obtain 85% or more of their gross revenues from members. The Cooperative did not meet this requirement for the years ended December 31, 2017 and 2016, and is required to file a U.S. Corporation Income Tax Return.

The Cooperative files a consolidated U.S. Corporation Income Tax Return with its wholly-owned subsidiary, Allband Multimedia.

The statute of limitations is generally three years for federal returns.

The Cooperative has determined its provision for federal income tax to amount to $0 and $0 for 2017 and 2016, respectively.

NOTE 7 - STATE INCOME TAX STATUS:

As a result of not meeting the requirement of obtaining 85% of gross revenues from members (see Note 6), the Cooperative is required to file a Michigan Corporate Income Tax Return for the years ended December 31, 2017 and 2016.

The Cooperative files a consolidated Michigan Corporate Income Tax Return with its wholly owned subsidiary, Allband Multimedia.

The statute of limitations is generally four years for Michigan returns.

The Cooperative has determined its provision for state income tax to amount to $0 and $0 for 2017 and 2016, respectively.

NOTE 8 - ARRA GRANT:

During 2010, Allband Communications Cooperative was awarded two grants as part of the USDA's Broadband Initiatives Program. The total of these grants is $9,730,657. The funds are to be used to provide internet service to unserved areas within 3 years. As of December 31, 2017, the Cooperative has no plant under construction pertaining to ARRA, assets in service pertaining to ARRA in the amount of $9,222,929, inventory pertaining to ARRA of $349,394 and has received $9,572,323 in grant receipts.

NOTE 9 - ADDITIONAL DISCLOSURES:

Increasing pressure on the Federal Communications Commission from long distance carriers has created several changes in the way local service providers are compensated for the use of their networks. Over the past decade, the FCC has issued orders that focused on redistributing revenue requirements from the access arena to local services over time. The end result has been and will continue to be higher local service rates to subscribers.

The FCC has also issued orders that will ultimately eliminate local service subsidies for voice services and move those subsidies to broadband services. The Cooperative has already moved a substantial portion of the outside plant to fiber and will continue to make substantial investments in the network to meet FCC guidelines.

NOTE 10 - FINANCIAL STATEMENT PRESENTATION:

Certain accounts for 2016 have been reclassified to conform to the current year presentation of revenues and operating expense. The reclassifications have no effect on the net income for 2016.

NOTE 11 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events and transactions for potential recognition or disclosure through July 12, 2018, the date the financial statements were available to be issued. Subsequent to year-end, on March 20, 2018, Allband received an FCC waiver of the High Cost Loop (HCL) $250/line cap and its support was restored to $457 per loop effective February 1, 2018, through March 1, 2021. The order also found that its cost accounting is now reliable and that Allband is to be reimbursed an additional $207 per line (the difference between the $250 cap and the new level of support) retroactively from August 1, 2017, through January 2018. Allband received these funds in March 2018. Also the Cooperative was granted an interest-only waiver from the U.S. Rural Utilities Services on its outstanding note payable through June 2018 and was permitted to make interest-only payments on the outstanding note payable to Northeast Michigan Drilling and Development, Inc., and had payments on capital leases to Northeast Michigan Drilling and Development, Inc. deferred. See Note 5 for additional information. The status of refinancing the U.S. Rural Utilities Service note payable is currently unknown.

NOTE 12 - GOING CONCERN:

On July 20, 2016, the FCC denied the Cooperative a continued waiver of section 54.302 of the Commission’s rules and denied a review of the Wireless Competition Bureau’s July 25, 2015, waiver grant. This decision had decreased the cooperative’s monthly revenue significantly. Management had adjusted operating expenses and continued its discussions with RUS regarding future loan payments.

On February 22, 2018, Allband received an FCC waiver of the High Cost Loop (HCL) $250/line cap and its support was restored to the lesser of $457 per loop per month or support based on actual costs per loop effective February 1, 2018 until March 1, 2021. The order also found that its cost accounting is now reliable and that Allband is to be reimbursed an additional $207 per line (the difference between the $250 cap and the new level of support) retroactively from August 1, 2017 through January 31, 2018. Allband received these funds in March 2018. Regarding the period of time from July 20, 2016 through August 1, 2017, the order found that Allband’s per-line costs justify a finding of $457 per line per month; however, the order arbitrarily and unreasonably failed to reimburse Allband for these funds after the “clawback” was applied. The amount of the “clawback” was determined by USAC in a letter dated March 20, 2018, in which USAC determined that Allband was overcompensated by $92,323 between July 2012 and July 20, 2016. The waiver ordered USAC to offset the overcompensation or "claw-back" with the additional $207 per loop times the number of loops for the time period of July 20, 2016 through August 1, 2017, which was calculated to be $335,742. In its order, the FCC declined to reimburse Allband the remaining $243,419 (difference between $335,742 and $92,323) and, on March 26, 2018, Allband has since filed an Application for Review (AFR) with the FCC requesting reconsideration and further explanation concerning their denial of the $243,419 in funding.

NOTE 12 - GOING CONCERN (Continued):

The FCC's failure to acknowledge that the reduction in per-line support to $250 per line from July 20, 2016 until August 1, 2017, was an interim temporary measure pending completion of a review of Allband's cost allocation accounting and submission of a new waiver petition had devastating consequences for Allband. First, the amount due to Allband is essential to restore some modicum of financial stability to assist Allband in complying with its RUS loan requirements, and in seeking a restructuring of its RUS loan to assist in reducing Allband's needed per-line support. Further, the full net reimbursement of per-line support is necessary so that Allband can ensure the continuation of reliable service to its customers, maintain its network, and to pursue economically cost-effective additions in lines. Additionally, Allband did everything it could within its power to expedite the process including filing an Emergency Interim Waiver Petition in January 2017, undertaking exhaustive efforts to cooperate with USAC and the FCC's Wireline Competition Bureau to make any corrections to its cost accounting and expending vast amounts of time and financial resources in seeking to expedite FCC action by filing petitions, conducting ex parte meetings with the FCC and USAC and numerous other costly actions.

The ability of the cooperative to continue as a going concern and meet its obligations as they become due is dependent on the Cooperative's ability to adjust future loan payments, limit expenses, grow revenues, and to generate a net operating profit or a loss that does not exceed the net cash and investment balance. The financial statements do not include any adjustment that might be necessary if the Cooperative is unable to continue as a going concern.

SUPPLEMENTARY INFORMATION

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES
(A Michigan Mutual Company)
CURRAN, MICHIGAN

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2017

ASSETS

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $ 175,930 | $ 5,682 | $ 0 | $ 0 | $ 181,612 |
| Accounts receivable - telecommunications | 227,888 | 60,628 | | | 288,516 |
| Accounts receivable - affiliate | 450,711 | | | 450,711 | 0 |
| Materials and supplies | 505,636 | | | | 505,636 |
| Loan origination fees - current | 2,750 | | | | 2,750 |
| Prepaid income taxes | 11,248 | | | | 11,248 |
| Other prepaid expenses | 12,832 | 6,240 | | | 19,072 |
| Note receivable - current | | 63 | | | 63 |
| Total current assets | 1,386,995 | 72,613 | 0 | 450,711 | 1,008,897 |
| NONCURRENT ASSETS: | | | | | |
| Deferred loan costs | 19,937 | | | | 19,937 |
| Note receivable - noncurrent | | | | | 0 |
| Investment - affiliated | (258,717) | | | (258,717) | 0 |
| Total noncurrent assets | (238,780) | 0 | 0 | (258,717) | 19,937 |
| PROPERTY, PLANT, AND EQUIPMENT: | | | | | |
| Telecommunications plant under construction | 50,280 | | | | 50,280 |
| Telecommunications plant in service | 7,129,914 | 126,946 | | | 7,256,860 |
| Leased property, plant and equipment | 1,407,593 | | | | 1,407,593 |
| | 8,587,787 | 126,946 | 0 | 0 | 8,714,733 |
| Less: Accumulated depreciation | 3,718,047 | 7,900 | | | 3,725,947 |
| Net book value | 4,869,740 | 119,046 | 0 | 0 | 4,988,786 |
| Total assets | $ 6,017,955 | $ 191,659 | $ 0 | $ 191,994 | $ 6,017,620 |

(The accompanying notes are an integral part of these financial statements)

LIABILITIES AND MEMBERS' EQUITY

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| CURRENT LIABILITIES: | | | | | |
| Current portion - RUS mortgage notes | $ 238,253 | $ 0 | $ 0 | $ 0 | $ 238,253 |
| Current portion - other notes payable | 30,092 | | | | 30,092 |
| Current portion - capital leases | 10,992 | | | | 10,992 |
| Accounts payable | 212,859 | 28,140 | | | 240,999 |
| Accounts payable - affiliate | | 411,475 | 39,236 | 450,711 | 0 |
| Accrued interest | 93,558 | | | | 93,558 |
| Accrued taxes and expenses | 7,499 | 1,362 | | | 8,861 |
| Security deposits | 240 | 9,399 | | | 9,639 |
| Total current liabilities | 593,493 | 450,376 | 39,236 | 450,711 | 632,394 |
| OTHER LONG-TERM LIABILITIES: | | | | | |
| Deferred grant revenue | 349,394 | | | | 349,394 |
| Capital lease | 1,329,301 | | | | 1,329,301 |
| Total other long-term liabilities | 1,678,695 | 0 | 0 | 0 | 1,678,695 |
| LONG-TERM DEBT - less current portion: | | | | | |
| RUS mortgage notes | 4,680,636 | | | | 4,680,636 |
| Other notes payable | 185,399 | | | | 185,399 |
| Total long-term debt | 4,866,035 | 0 | 0 | 0 | 4,866,035 |
| Total liabilities | 7,138,223 | 450,376 | 39,236 | 450,711 | 7,177,124 |
| MEMBERS' EQUITY: | | | | | |
| Memberships issued | 3,520 | | | | 3,520 |
| Non-Patronage capital (deficit) | (191,174) | (50,796) | (39,236) | (50,796) | (230,410) |
| Patronage capital (deficit) | (932,614) | (207,921) | | (207,921) | (932,614) |
| Total members' equity (deficit) | (1,120,268) | (258,717) | (39,236) | (258,717) | (1,159,504) |
| Total liabilities and members' equity | $ 6,017,955 | $ 191,659 | $ 0 | $ 191,994 | $ 6,017,620 |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | |
| Wireline | $ 687,581 | $ 0 | $ 0 | $ 0 | $ 687,581 |
| Long distance | 14,376 | | | | 14,376 |
| Internet | | 634,095 | | | 634,095 |
| Miscellaneous | 146,570 | | | 141,933 | 4,637 |
| Total operating revenues | 848,527 | 634,095 | 0 | 141,933 | 1,340,689 |
| OPERATING EXPENSES: | | | | | |
| Plant specific operations | 41,120 | 208,842 | 980 | 51,535 | 199,407 |
| Plant nonspecific operations | 49,562 | 116,974 | | 90,398 | 76,138 |
| Depreciation and amortization | 366,364 | 80,170 | 2,031 | | 448,565 |
| Customer operations | 32,956 | 143,110 | 5,875 | | 181,941 |
| Corporate operations | 260,682 | 168,191 | 24,512 | | 453,385 |
| Total operating expenses | 750,684 | 717,287 | 33,398 | 141,933 | 1,359,436 |
| GROSS OPERATING INCOME (LOSS) | 97,843 | (83,192) | (33,398) | 0 | (18,747) |
| OPERATING TAXES: | | | | | |
| Other operating taxes | 66,610 | | | | 66,610 |
| OPERATING INCOME (LOSS) | 31,233 | (83,192) | (33,398) | 0 | (85,357) |
| NONOPERATING INCOME (DEDUCTIONS): | | | | | |
| Interest income | 2 | | | | 2 |
| Interest expense - RUS | (250,048) | | | | (250,048) |
| Interest expense - other | (25,303) | (65,764) | (2,071) | | (93,138) |
| Income (Loss) from affiliate | (148,956) | | | (148,956) | 0 |
| Federal income tax | | | | | 0 |
| State income tax | | | | | 0 |
| Other income (expense) | (4,864) | | | | (4,864) |
| Other non-regulated income (expense) | 18,197 | | | | 18,197 |
| Total nonoperating income (deductions) | (410,972) | (65,764) | (2,071) | (148,956) | (329,851) |
| NET INCOME (LOSS) | $ (379,739) | $ (148,956) | $ (35,469) | $ (148,956) | $ (415,208) |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES: | | | | | |
| Net income (loss) | $ (379,739) | $ (148,956) | $ (35,469) | $ (148,956) | $ (415,208) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation and amortizaton | 444,878 | 80,170 | 2,031 | 77,538 | 449,541 |
| (Gain) Loss from investment in affiliate | 148,956 | | | 148,956 | 0 |
| (Gain) Loss from disposal of capital lease | 0 | | | | 0 |
| Changes in operating assets and liabilities: | | | | | |
| (Increase) Decrease in: | | | | | |
| Accounts receivable | (151,614) | (897) | | | (152,511) |
| Accounts receivable affiliate | (170,351) | | | (170,351) | 0 |
| Materials and supplies | (11,871) | | | | (11,871) |
| Prepaid taxes | 0 | | | | 0 |
| Prepaid income taxes | 0 | | | | 0 |
| Other prepaid expenses | 3,433 | 685 | | | 4,118 |
| Increase (Decrease) in: | | | | | 0 |
| Accounts payable | 89,550 | 28,140 | | | 117,690 |
| Accounts payable - related party | | 59,375 | 33,438 | 92,813 | 0 |
| Accrued interest | 87,179 | | | | 87,179 |
| Accrued taxes and expenses | (8,547) | (2,595) | | | (11,142) |
| Security deposits | 90 | (2,359) | | | (2,269) |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | 51,964 | 13,563 | 0 | 0 | 65,527 |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| INVESTING ACTIVITIES: | | | | | |
| Purchase of property, plant, and equipment | (20,178) | (24,354) | | | (44,532) |
| Proceeds from sale of property, plant and equipment | | | | | 0 |
| Issuance of notes receivable | | | | | 0 |
| Payments received on notes receivable | | 1,684 | | | 1,684 |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | (20,178) | (22,670) | 0 | 0 | (42,848) |
| FINANCING ACTIVITIES: | | | | | |
| Increase in memberships | 240 | | | | 240 |
| Proceeds from other long-term debt borrowings | 150,000 | | | | 150,000 |
| Payments on capital lease | 0 | | | | 0 |
| Principal payments on long-term debt | (73,136) | | | | (73,136) |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | 77,104 | 0 | 0 | 0 | 77,104 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 108,890 | (9,107) | 0 | 0 | 99,783 |
| CASH AND CASH EQUIVALENTS - BEGINNING | 67,040 | 14,789 | 0 | | 81,829 |
| CASH AND CASH EQUIVALENTS - ENDING | $ 175,930 | $ 5,682 | $ 0 | $ 0 | $ 181,612 |
| SUPPLEMENTAL DISCLOSURES: | | | | | |
| Interest paid ($0 capitalized) | $ 256,007 | $ 0 | $ 0 | $ 0 | $ 256,007 |
| Income taxes paid | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Leased property, plant, and equipment | $ 64,115 | $ 0 | $ 0 | $ 0 | $ 64,115 |
| Leased equipment payable | $ 64,115 | $ 0 | $ 0 | $ 0 | $ 64,115 |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES
(A Michigan Mutual Company)
CURRAN, MICHIGAN

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2016

ASSETS

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $ 67,040 | $ 14,789 | $ 0 | $ 0 | $ 81,829 |
| Accounts receivable - telecommunications | 76,274 | 59,731 | | | 136,005 |
| Accounts receivable - affiliate | 280,360 | | | 280,360 | 0 |
| Materials and supplies | 493,765 | | | | 493,765 |
| Loan origination fees - current | 2,750 | | | | 2,750 |
| Prepaid income taxes | 11,248 | | | | 11,248 |
| Other prepaid expenses | 16,265 | 6,925 | | | 23,190 |
| Note receivable - current | | 908 | | | 908 |
| Total current assets | 947,702 | 82,353 | 0 | 280,360 | 749,695 |
| NONCURRENT ASSETS: | | | | | |
| Deferred loan cost | 22,687 | | | | 22,687 |
| Note receivable - noncurrent | | 839 | | | 839 |
| Investment - affiliated | (109,761) | | | (109,761) | 0 |
| Total noncurrent assets | (87,074) | 839 | 0 | (109,761) | 23,526 |
| PROPERTY, PLANT, AND EQUIPMENT: | | | | | |
| Telecommunications plant under construction | 50,280 | | | | 50,280 |
| Telecommunications plant in service | 7,126,185 | 102,592 | | | 7,228,777 |
| Leased property, plant, and equipment | 1,343,478 | | | | 1,343,478 |
| | 8,519,943 | 102,592 | 0 | 0 | 8,622,535 |
| Less: Accumulated depreciation | 3,275,917 | 3,237 | | | 3,279,154 |
| Net book value | 5,244,026 | 99,355 | 0 | 0 | 5,343,381 |
| Total assets | $ 6,104,654 | $ 182,547 | $ 0 | $ 170,599 | $ 6,116,602 |

(The accompanying notes are an integral part of these financial statements)

LIABILITIES AND MEMBERS' EQUITY

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| CURRENT LIABILITIES: | | | | | |
| Current portion - RUS mortgage notes | $ 66,808 | $ 0 | $ 0 | $ 0 | $ 66,808 |
| Current portion - Other notes payable | 9,988 | | | | 9,988 |
| Accounts payable | 123,309 | | | | 123,309 |
| Accounts payable - affiliate | | 276,593 | 3,767 | 280,360 | 0 |
| Accrued interest | 6,379 | | | | 6,379 |
| Accrued taxes and expenses | 16,046 | 3,957 | | | 20,003 |
| Security deposits | 150 | 11,758 | | | 11,908 |
| Total current liabilities | 222,680 | 292,308 | 3,767 | 280,360 | 238,395 |
| OTHER LONG-TERM LIABILITIES: | | | | | |
| Deferred grant revenue | 365,847 | | | | 365,847 |
| Capital lease | 1,276,176 | | | | 1,276,176 |
| Total other long-term liabilities | 1,642,023 | 0 | 0 | 0 | 1,642,023 |
| LONG-TERM DEBT - less current portion: | | | | | |
| RUS mortgage notes | 4,919,458 | | | | 4,919,458 |
| Other notes payable | 61,262 | | | | 61,262 |
| Total long-term debt | 4,980,720 | 0 | 0 | 0 | 4,980,720 |
| Total liabilities | 6,845,423 | 292,308 | 3,767 | 280,360 | 6,861,138 |
| MEMBERS' EQUITY: | | | | | |
| Memberships issued | 3,280 | | | | 3,280 |
| Non-Patronage capital (deficit) | (55,167) | (56,046) | (3,767) | (56,046) | (58,934) |
| Patronage capital (deficit) | (688,882) | (53,715) | | (53,715) | (688,882) |
| Total members' equity (deficit) | (740,769) | (109,761) | (3,767) | (109,761) | (744,536) |
| Total liabilities and members' equity | $ 6,104,654 | $ 182,547 | $ 0 | $ 170,599 | $ 6,116,602 |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| OPERATING REVENUES: | | | | | |
| Wireline | $ 948,869 | $ 0 | $ 0 | $ 0 | $ 948,869 |
| Long distance | 10,746 | | | | 10,746 |
| Internet | | 617,591 | | | 617,591 |
| Miscellaneous | 122,422 | | | 117,687 | 4,735 |
| Total operating revenues | 1,082,037 | 617,591 | 0 | 117,687 | 1,581,941 |
| OPERATING EXPENSES: | | | | | |
| Plant specific operations | 57,410 | 232,218 | 42 | 51,288 | 238,382 |
| Plant nonspecific operations | 50,472 | 104,763 | | 66,399 | 88,836 |
| Depreciation and amortization | 397,598 | 71,408 | 100 | | 469,106 |
| Customer operations | 34,967 | 153,257 | 19 | | 188,243 |
| Corporate operations | 287,521 | 140,129 | 3,498 | | 431,148 |
| Total operating expenses | 827,968 | 701,775 | 3,659 | 117,687 | 1,415,715 |
| GROSS OPERATING INCOME (LOSS) | 254,069 | (84,184) | (3,659) | 0 | 166,226 |
| OPERATING TAXES: | | | | | |
| Other operating taxes | 74,075 | | | | 74,075 |
| OPERATING INCOME (LOSS) | 179,994 | (84,184) | (3,659) | 0 | 92,151 |
| NONOPERATING INCOME (DEDUCTIONS): | | | | | |
| Interest income | 129 | | | | 129 |
| Interest expense - RUS | (252,482) | | | | (252,482) |
| Interest expense - other | (20,481) | (64,674) | (108) | | (85,263) |
| Income (loss) from affiliate | (148,858) | | | (148,858) | 0 |
| Federal income tax | | | | | 0 |
| State income tax | | | | | 0 |
| Other income (expense) | (43,305) | | | | (43,305) |
| Other non-regulated income (expense) | 749 | | | | 749 |
| Total nonoperating income (deductions) | (464,248) | (64,674) | (108) | (148,858) | (380,172) |
| NET INCOME (LOSS) | $ (284,254) | $ (148,858) | $ (3,767) | $ (148,858) | $ (288,021) |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES: | | | | | |
| Net income (loss) | $ (284,254) | $ (148,858) | $ (3,767) | $ (148,858) | $ (288,021) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation and Amortization | 467,364 | 71,408 | 100 | 68,271 | 470,601 |
| (Gain) Loss from investment in affiliate | 148,858 | | | 148,858 | 0 |
| (Gain) Loss from disposal of capital lease | 37,081 | | | | 37,081 |
| Changes in operating assets and liabilities: | | | | | |
| (Increase) Decrease in: | | | | | |
| Accounts receivable | 101,282 | 6,091 | | | 107,373 |
| Accounts receivable - affiliate | (174,102) | | | (174,102) | 0 |
| Materials and supplies | 15,381 | | | | 15,381 |
| Prepaid taxes | 43,752 | | | | 43,752 |
| Prepaid income taxes | 31,695 | | | | 31,695 |
| Other prepaid expenses | 4,655 | (6,925) | | | (2,270) |
| Increase (Decrease) in: | | | | | |
| Accounts payable | 102,263 | | | | 102,263 |
| Accounts payable - related party | | 102,164 | 3,667 | 105,831 | 0 |
| Accrued interest | 6,379 | | | | 6,379 |
| Accrued taxes and expenses | (10,529) | (243) | | | (10,772) |
| Security deposits | 0 | (4,100) | | | (4,100) |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | 489,825 | 19,537 | 0 | 0 | 509,362 |

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Allband Communications Cooperative | Allband Multimedia, LLC | ACEWR | Eliminations | Consolidated |
|---|---|---|---|---|---|
| INVESTING ACTIVITIES: | | | | | |
| Purchase of property, plant, and equipment | (123,308) | (28,025) | | | (151,333) |
| Proceeds from sale of property, plant, and equipment | 100 | | | | 100 |
| Issuance of notes receivable | | (1,905) | | | (1,905) |
| Payments received on notes receivable | | 158 | | | 158 |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | (123,208) | (29,772) | 0 | 0 | (152,980) |
| FINANCING ACTIVITIES: | | | | | |
| Increase in memberships | 140 | | | | 140 |
| Proceeds from other long-term debt borrowings | 71,250 | | | | 71,250 |
| Payments on capital lease | (108,502) | | | | (108,502) |
| Principal payments on long-term debt | (398,132) | | | | (398,132) |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | (435,244) | 0 | 0 | 0 | (435,244) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (68,627) | (10,235) | 0 | 0 | (78,862) |
| CASH AND CASH EQUIVALENTS - BEGINNING | 135,667 | 25,024 | | | 160,691 |
| CASH AND CASH EQUIVALENTS - ENDING | $ 67,040 | $ 14,789 | $ 0 | $ 0 | $ 81,829 |
| SUPPLEMENTAL DISCLOSURES: | | | | | |
| Interest paid ($0 capitalized) | $ 271,360 | $ 59,904 | $ 100 | $ 0 | $ 331,364 |
| Income taxes paid | $ (45,955) | $ 0 | $ 0 | $ 0 | $ (45,955) |
| Leased property, plant, and equipment | $ 1,343,478 | $ 0 | $ 0 | $ 0 | $ 1,343,478 |
| Leased equipment payable | $ (1,343,478) | $ 0 | $ 0 | $ 0 | $ (1,343,478) |

(The accompanying notes are an integral part of these financial statements)

**LALLY GROUP, PC**
Certified Public Accountants
*"Trusted Service for a Confident Tomorrow"*

**Jackson Office**
110 1st Street
JACKSON, MICHIGAN 49201
(517) 787-0064
Website: www.lallycpa.com
E-Mail: info@lallycpa.com

**Lansing Office**
7335 Westshire Drive
LANSING, MICHIGAN 48917
(517) 627-4008
(517) 321-4333

# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Allband Communications Cooperative and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Allband Communications Cooperative and subsidiaries (collectively referred to as the Cooperative), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 12, 2018.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Cooperative's internal control to be significant deficiencies:

- Limited Segregation of Duties

  The Cooperative has a limited number of staff working within the accounting functions. While we are not recommending any changes in this area, the situation would dictate that the Cooperative be aware of the potential problems inherent in a Cooperative with such a limited segregation of duties. We recommend that the Board remains closely involved in the oversight of the financial affairs of the Cooperative.

- Financial Statement Preparation

  The Cooperative's staff prepares the interim financial statements for management and the board of directors, but relies on assistance from the audit firm in preparing the year-end financial statements and footnotes. Statement on Auditing Standards No. 115 requires communication in writing when a client requires assistance to prepare the year-end financial statements and footnotes for the annual audit report in accordance with accounting principles generally accepted in the United States of America. We do not recommend any changes in this area.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lally Group, PC*
*Jackson, Michigan*

July 12, 2018

**LALLY GROUP, PC**
Certified Public Accountants
*"Trusted Service for a Confident Tomorrow"*

**Jackson Office**
110 1st Street
JACKSON, MICHIGAN 49201
(517) 787-0064
Website: www.lallycpa.com
E-Mail: info@lallycpa.com

**Lansing Office**
7335 Westshire Drive
LANSING, MICHIGAN 48917
(517) 627-4008
(517) 321-4333

Board of Directors
Allband Communications Cooperative
7251 Cemetery Road
Curran, Michigan 48728

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Allband Communications Cooperative and subsidiaries (collectively referred to as the Cooperative), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated July 12, 2018. In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2018, on our consideration of The Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. No reports other than the reports referred to above and our findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, 1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below, other than the failed TIER ratio noted in footnote 4. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. Regarding the items listed below, in connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plan accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electrical system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirement for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments. None to be listed.

In connection with our audit, there were two matters regarding the Cooperative's accounting and records that need to be improved or noted.

- As noted in the prior year audit, Allband is behind in the upkeep of its continuing property records (CPR) for plant in service. Allband's CPR update project remained open at year-end 2017. Management continues to work both internally and with outside consultants to update its continuing property records, with completion of this project expected in 2018.
- It was noted that during the audit a significant amount of adjusting journal entries were needed to the books and records. Management is working internally and with external consultants and is committed to reducing the number of adjusting journal entries and to preparing timely Financial Operating Reports.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Lally Group, PC*

*Jackson, Michigan*
July 12, 2018